

Thursday, 28 October 2021 | special comments

## Cognor: Forecast of 2021 Q3 Results

Recommendation: buy | target price: PLN 5.05 | current price: PLN 4.56

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**Cognor's subsidiary steel rebar producer, Ferrostal, in Q3 2021 again capitalized on upward-trending rebar prices that made for a full quarter of very high spreads. Another driver behind the expanding margins were rising costs of metallurgical coke, which provided a bigger competitive advantage to the electric arc furnace (EAF) route.**

**Even without a one-time boost from one-time FIFO effects, we believe Cognor will post EBITDA of more than PLN 100m in Q3 2021 for the second quarter in a row.**

**We raised our FY2021 EBITDA estimate for Cognor from PLN 222m to PLN 354m after better-than-expected H1 results. Assuming EBITDA for Q3 fulfills the expected PLN 290m, the Company will deliver 82% of the updated full-year forecast in the year to 30 September 2021.**

- Cognor sold an estimated 154,000 tonnes of steel product in Q3 2021, up 11% from the same period a year ago. Note that Ferrostal did not close for maintenance at the usual time this August – the downtime is postponed to January 2022. Sales of scrap steel in Q3 most likely decreased relative to the high volume sold the previous quarter but compared to Q3 2020 we expect a surge of 60%.
- We assume Cognor's sales prices climbed in line with market prices in Q3, facilitating revenue growth of 80% year on year to a projected PLN 674m.
- At Ferrostal, on higher prices and spreads we see an PLN 18m rebound compared to the quarter prior. On the other hand, at HSJ rolled steels profits might show q/q contraction of PLN 9m, though compared to 2020 there is consistent improvement.
- On strong earnings, Cognor will generate operating cash flow of an estimated PLN 60m in Q3 2021, and it will end the quarter with lower net debt of ca. PLN 74m.

### Forecast of 2021 Q3 results of Cognor

(PLN m)	3Q'21E	3Q'20	y/y	2021E	YTD*
revenue	674	372	81%	2632	75%
EBITDA	109	21.2	414%	354	86%
EBITDA margin	16%	5.7%		13%	
EBIT	96	9.0	966%	303	87%
net profit	76	2	4095%	236	85%

Source: Cognor, E - mBank estimate expected \*year-to-date result as a percentage of our full-year estimate

### Historical quarterly results of Cognor and Q3 2021 estimates

capacity utilization rate (%)	2Q'19	Q3'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21E
Ferrostal rebar	114%	88%	151%	119%	131%	89%	113%	103%	115%	106%
HSJ rolled steels	99%	76%	82%	95%	92%	84%	94%	109%	106%	83%
(PLN m)	2Q'19	Q3'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21E
revenue	516	400	466	460	456	372	445	584	716	674
EBITDA (adj.)	36	13	19	28	29	12	23	75	116	109
one-time events	7	4	0	2	10	10	0	5	-2	0
operating cash flow	81	29	82	40	53	27	86	53	-24	60
net debt	286	286	226	260	226	218	164	126	177	74

Source: Cognor, E - mBank estimate

**List of abbreviations and ratios contained in the report:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

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**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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